

The Convergence Model:
Product Evolution Stages and Investment Strategies

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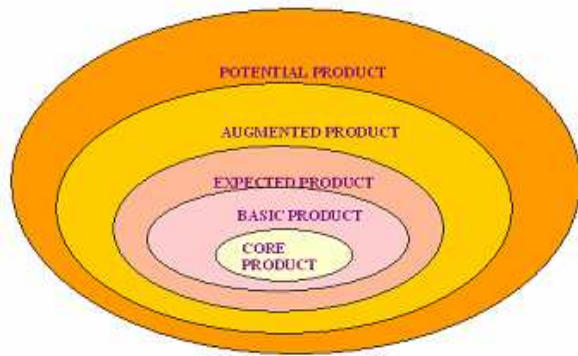
ABSTRACT

Marketing is an amazing story, an incredible function and perhaps the most challenging thing because of the certainty of an event called “change”. Because of this, a product and its marketing strategies need to adjust itself to the changes. This has lead to the theories of Product Level Hierarchies and Product Life Cycle, which explain the evolution of a product and it’s marketing in several stages.

Businesses no longer are situated in one place as one unit that has given way to the concept of business unit and business unit level strategy. The BCG Matrix is a very well known model explaining the investment strategies for different business units in different market situations. But none of the above-mentioned theories and models are free from criticism as each fails to explain the marketing strategies completely.

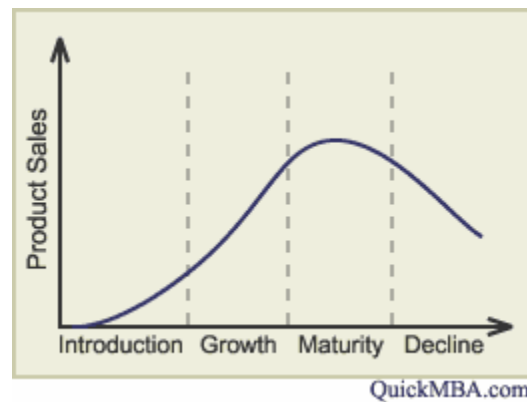
Barksdale and Harris Combined Portfolio Model is an improvement over these models and takes care of most of the criticisms. But still there are gaps. To bridge those gaps we propose a Convergence Model where the Product Level Hierarchy has been superimposed on the Barksdale and Harris Combined Portfolio Model. This Convergence Model is only a better explanation but not an exhaustive one.

To make marketing successful, a product should be sound and easily acceptable to the market. It should satisfy the reseller's needs and the consumer preferences and take care of the needs and desires of the customers. Theodore Levitt proposes that while planning its market offering the marketer needs to think through 5 levels of the product viz. Core Benefit or Product, Basic or Generic Product, Expected Product, Augmented product, Potential product. Each level adds to the customer value and on the whole forms a Customer Value Hierarchy.



This indicates that a product has to go through several stages of evolution with the changing demand of customers. In other words, a product can also have a life cycle in the same way a living organism has. A **product life cycle** has four stages:

- (1) Introduction (2) Growth (3) Maturity and (4) Decline
- (2)

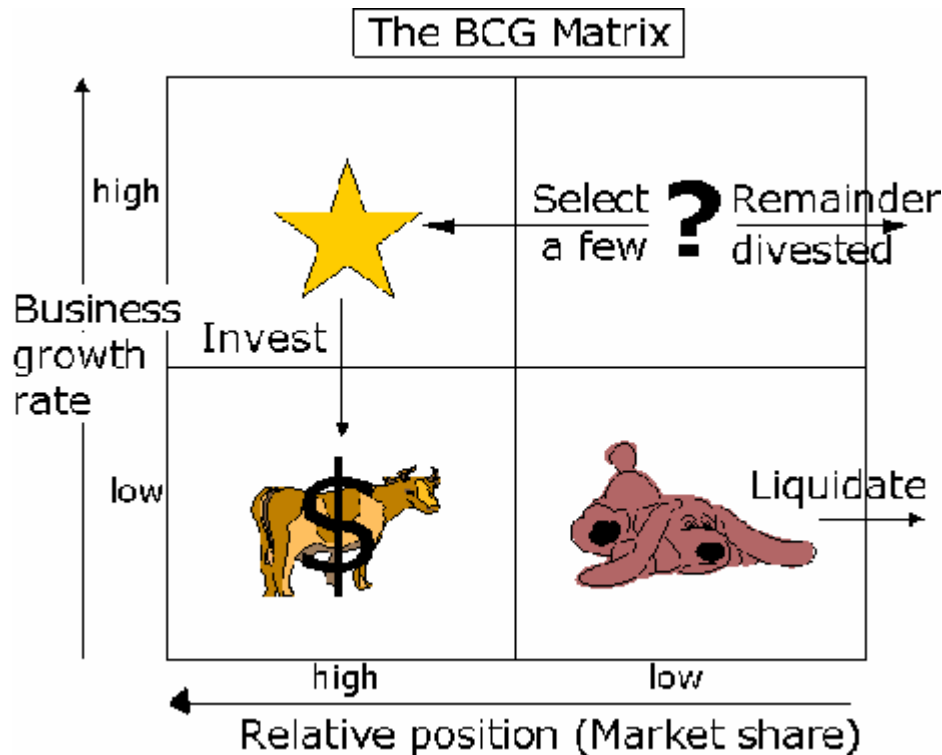


The concept of PLC is only a guiding tool.

The main criticisms are:

- There is no fixed length of time that a product must stay in any stage
- There is no real proof that all products must die
- The theory gives overemphasis on new product releases at the expense of mature products
- The theory emphasizes individual products instead of taking larger brands into account

Today any business has to form a manageable number of strategically related groups called SBUs or Strategic Business Units. The two main reasons for a business portfolio analysis are to allocate resources effectively among units and to develop growth strategies for growing the units. Alternative actions include build, hold, harvest and divest. One such useful strategic tool is The **Boston Consulting Group approach** where SBUs are classified according to two factors: its market share relative to competitors, and the growth rate of the industry in which the SBU operates. Based on whether each of these is high or low, the four quadrants of the matrix are defined as Stars, Cash Cows, Question Marks, or Dogs each indicating a different type of business.



Source: www.valuebasedmanagement.net

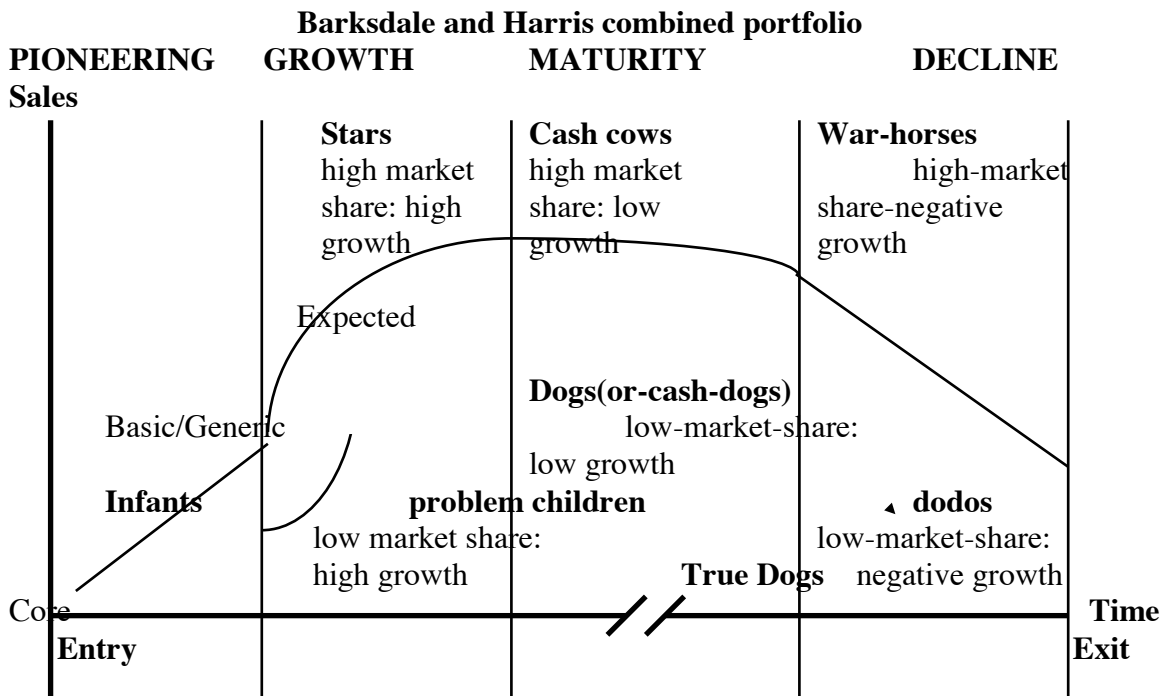
Although the growth-share matrix analysis can help in making strategic decisions about managing a portfolio of businesses or products, it has some shortcomings.

First, not all businesses or products fit neatly into one of the four quadrants.

Secondly, there are other factors besides market share and industry growth rate, which affect strategy selection. These factors include "stage of product/market evolution, strategic fit among the different businesses, the presence of competitive advantages and distinctive competencies, emerging threats and opportunities, vulnerability to recession, market structure, capital requirements, and size of market.

Thirdly, the profitability of business, cash flow, and industry attractiveness may not always be closely related to market share and growth rate. Finally, it does not offer guidance for inter unit comparisons.

BCG matrix is commonly criticized because new and declining products are ignored here. **Barksdale and Harris Combined Portfolio Model** takes care of this problem. Barksdale and Harris developed this model on the grounds that the BCG matrix ignores the position of the industry. Their matrix attempts to resolve this difficulty as indicated in following figure:

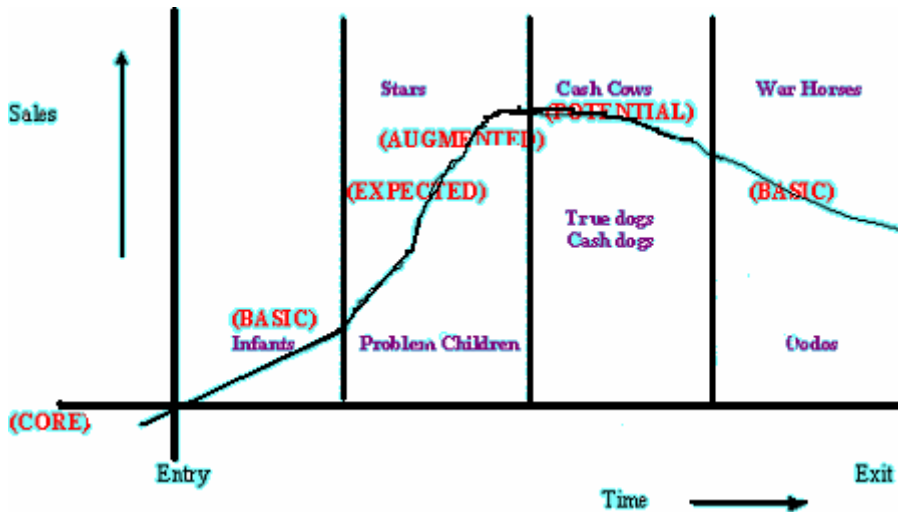


Source: http://www.da-group.co.uk/geoff_lancaster/product_handout.doc

- 1 'Infants' are seen at the pioneering (introduction) stage. Research and development costs are being recouped.
- 2 'Stars' enjoy high market share in a high growth market.
- 3 'Problem children' being in a low market share but high growth situation are costly to maintain.
- 4 'Cash cows' provide a steady revenue flow as they simply make money having a high market share, albeit in a low growth market.
- 5 'True dogs' have a low market share in a saturated market and provide a flat or even negative cash flow.
- 6 'Cash dogs' have a low market share in a saturated market, but produce a small positive cash flow.
- 7 'War horses' are seen in a declining market but are still supportable.
- 8 'Dodos' are precarious SBUs in that they are in a declining market and have a low market share.

A general explanation of PLC and BCG matrix gives rise to many unanswered questions and hence criticisms. Barksdale and Harris combined portfolio model explains these criticisms to a large extent. But still there are some questions, which need to be answered. Such an issue is whether PLC can be generalized across all the economies of the world. For example when mobile telecommunication was in its introductory phase in India, it was in growth phase in many parts of the globe. We would therefore like to superimpose the concept of Theodore Levitt's product level hierarchy on Barksdale and Harris

combined portfolio to give a modified explanation. Following is the diagrammatic illustration:



After a rigorous process of research and development when the new product is conceptualized it is supposed to be in a nascent stage and is a core concept. When that concept after thorough testing is launched in the market in the form of a product, it is in the introductory stage of the Product Life cycle or the basic or generic form of the product. In case of an absolute new product introduction, the business launches it after it is assured of high growth rate through proper market survey. But the market share in terms of sales is low and hence it is in the question mark stage of BCG.

With time, the product gains popularity through promotional and distributional efficiencies and the product reaches the growth stage of PLC. But by this time there are other players who are entering the market attracted by the large profits. So the customers have choices and their expectations are raised. This gives rise to further product modification and marketers are now offering the expected product to the customers to be in the market. The first mover company by this time is gradually increasing its market share and moving towards the star zone of BCG. According to Barksdale and Harris combined portfolio model there could be a business that has some bottlenecks and cannot deliver the expected product. They are the problem children, failing to become star.

But then competition increases further. This is the stage of maturity in PLC. Now comes the stage where products are augmented to ensure customer delight. Companies who are able to augment the product can retain the market share and are in the cash cow phase of BCG because the market growth is stagnated. But the most interesting and challenging aspect of marketing is that today's augmented product and customer delight are tomorrow's expected product and mere satisfaction. This is what makes creativity and innovativeness imperative in modern day marketing. But the sad reality is that every company cannot do this and hence all cannot be cash cows. According to Barksdale and Harris Combined Portfolio Model, there are some businesses that are cash dogs and the explanation is in the product level hierarchy. A failure to keep on augmenting

continuously with the changing tastes and preferences of consumers will lead to a decrease in market share and even an exit from the market.

Now by this time there has been a fresh set of research and development somewhere, which hints at bringing in a better solution to customer needs. Only those businesses survive which have been able to retain high market shares. But now the market demand declines and according to Barksdale and Harris Model, those who could not be the warhorses with high market share become dodos and are out of the market. But those who are the warhorses and have the market shares are mostly offering the potential product, which is the highest degree to which you can augment. By this time a new PLC starts with a core concept been developed into a generic or basic product and the old business starts fading away.

We thus believe that this **CONVERGENCE Model** is a better explanation for all that a product has to go through all along its life in the market. We firmly believe that though there cannot be an all-explanatory model for marketing the products as markets, consumers and results of research and development are never predictable, so product marketing strategy models need a continuous study and up-gradation to suit itself to the everyday changing market scenario.

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